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DDI 04662-86
10 November 1986

MEMORANDUM FOR THE RECORD

SUBJECT: CPPG Meeting on Iran, 10 November 1986

1. The CPPG was chaired by Alton Keel. ADDI John Helgersen and NIO/NESA Dan Webster attended for the Agency.

2. At the request of the NSC Staff, John Helgersen gave a briefing on the leadership struggle in Iran based on the attached paper.

3. Mike Armacost of State described US objectives in our Iranian policy, including the Soviet and Afghan angles, stability of the Gulf, terrorism, and the like.

4. Alton Keel led a discussion on where we go next, primarily interested in exploring whether there are groups or individuals in the Iranian leadership willing to work more closely with the US. Others in attendance noted that nothing of lasting significance is likely to prove at least possible until Khomeini dies.

5. Keel took great pains to describe the recent US dealings with Iran highlighted in the press in terms of larger strategic interests, subordinating the release of hostages in Lebanon. Armacost pointed out that whatever the realities, the moderate Arabs and the Europeans tend to believe what is in the press unless we are authorized to say something to put the whole matter into perspective.

6. The tasking from the meeting included the following:

- CIA/DI will prepare a more detailed paper on factions in the Iranian leadership. Don Gregg asked that this include a look at the military and Revolutionary Guard.
- State will do a paper on legal constraints to any alterations in our economic dealings with Iran.

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-- State will get back to the NSC with regard to which allies among the moderate Arabs and Europeans are most in need of hand holding as a result of the press stories on the arms-for-hostages issue.



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John L. Helgeson
Associate Deputy Director for Intelligence

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IRAN ECONOMIC INDICATORS

10 November 1986

- Oil export revenues for August thru October were down 65 percent compared with the same period last year. The lower value of the dollar makes the real impact equivalent to a 75 percent reduction.
- Iraqi attacks have cut Iran's oil refinery output by 40 to 50 percent over the past few months. Output, which had averaged 750,000 b/d, is unlikely to recover for at least another three months.
- Gasoline rationing has been instituted and heating fuel rations cut by 60 percent compared with last year. Although imports of fuels have risen from 125,000 b/d to over 200,000 b/d, Iran has little additional import capacity with which to offset domestic supply shortfalls.
- Iran has drawn heavily on its foreign exchange reserves since the beginning of the year. We estimate current liquid assets at about \$2 billion--equivalent to three months of imports.
- Tehran is frantically trying to recover frozen assets. France has tentatively agreed to pay \$350 million of a total \$1.6 billion it owes Iran. Release of French hostages in Lebanon may help free their funds. Tehran is also seeking \$400 million in a London escrow account set up to handle US bank claims.
- Domestic industry has all but collapsed as a result of import cuts, which have deprived factories of spare parts and raw materials. Iraqi attacks on some industries have had some effect as well.
- Factory closure and general austerity has pushed unemployment to at least one-third of the labor force.
- Supplies of basic consumer items, including food, are increasingly in short supply. Black market prices have jumped about 40 percent since May.
- Demonstrations over gasoline rationing have been reported in all major cities of Iran. There have been numerous reports of minor demonstrations and increased grumbling over shortages of other goods.

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Talking Points for the ADDI
Iranian Leadership Struggle
10 November 1986

1. Nature of Leadership Struggle in Iran

Why is the struggle going on now? Three main reasons:

- First, economic deterioration has narrowed regime options, sharpened factional divisions over course of the revolution.
- Second, dramatic deterioration this year in Khomeini's health. We do not believe he can any longer mediate and soften the factional infighting, one of his key political roles. Preliminary round of "post-Khomeini" struggle may have begun.
- Third, question of how--or even, whether--to prosecute the war more acute than ever. Tied to economic problems: Iran's resources to fight diminishing and increasingly encountering difficulties providing subsistence for populace. Iraqi air attacks on economic facilities have exploited this vulnerability.
- At same time, regime has backed self in corner by making overthrow of the Ba'thists in Baghdad a test of the success of the Iranian revolution. Compromise over war has become compromise of revolution; difficult for people acting according to Allah's pre-ordained blueprint.
- Regime raised stakes higher this year by touting "final offensive" and undertaking mass mobilization. Backing out now risks humiliating admission that leaders' judgment was seriously flawed. But to go ahead with offensive and fail carries risk of popular backlash. These dilemmas foster increased backbiting.

Who is involved? Three basic groups:

- Radicals support aggressive export of the revolution, continuation of the war, and greater government control of economy. They are most vehemently opposed to the US. A moderate/conservative coalition generally opposes violent export of the revolution, favors a negotiated end to the war, and seeks to limit government's economic role. This group is most anti-Soviet, but also suspicious of the US. Pragmatists maneuver between the two other factions, for the most part choosing policies they believe further Iran's national interests--and their own political careers.

Radicals
Moderate
Pragmatist

Until recently, relatively well-defined relationships among four key leaders drove Iranian politics:

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- Consultative Assembly Speaker Rafsanjani, regime's second most powerful figure after Khomeini and best politician, since Khomeini is no longer in his prime. Leading pragmatist, with allies in both moderate and radical camps.
- Ayatollah Montazeri, Khomeini's designated successor and long-considered ally of Rafsanjani. Their most likely post-Khomeini scenario: the politically less sophisticated Montazeri would serve as titular leader while wily Rafsanjani wielded real power and put together coalition ensuring his and Montazeri's supremacy.
- President Khamenei, another pragmatist with moderate leanings and Rafsanjani's chief rival.
- Prime Minister Musavi, a leading radical and hardliner on the war. He and Rafsanjani have seemed to draw closer this year.

Four
key
players

Relationships among these four now becoming more ambiguous. Particularly over two issues behind recent upsurge in infighting: the war and the arrest of associates of Montazeri.

Ambiguous:

- [redacted] in September that Khamenei and Musavi separately asked Montazeri to intercede with Khomeini to postpone planned offensive against Iraq. Musavi reportedly even wants the war to end.

1 • won
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3 • contacts
2 • US

- Rafsanjani's room for political maneuvering has narrowed this year because he has assumed a more prominent role in directing the war. Heavily involved in preparations for the offensive. His influence would be enhanced if offensive succeeds, damaged if it is postponed indefinitely or is launched but fails.

Montazeri clearly suffered setback after arrests of his associates, but who won less certain.

Montazeri
arrests

- Factional infighting is increasing, but we do not believe significant shift in favor of any faction has yet occurred.
- Fact that Rafsanjani felt compelled to appease radicals by strongly condemning US after contacts became public demonstrates strength of radical influence, especially regarding Iranian policies toward US.
- Whether Iran carries out successful offensive against Iraq likely to be single most decisive factor in next round of the struggle.
- Prospects are receding for gradual evolution of Iranian policies toward moderation. Serious internal conflict likely before one faction emerges on top. Open conflict favors the radicals; they control more men and guns.

Rafsanjani
contacts
US

* - no evolution
* - more conflict

Our knowledge of the events surrounding the arrest of Montazeri's son-in-law, son, and their associates is limited. The only certainties:

* - favors radicals

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- late early Oct.*
- The arrests struck at a group of radicals in Montazeri's entourage whose official function was to support radical Shia activities abroad. The radicals' leader, Mehdi Hashemi, is also implicated in the recent kidnapping of the Syrian Charge' in Tehran and the smuggling of explosives into Saudi Arabia in the luggage of Hajj pilgrims.
 - The arrests have seriously undermined Montazeri's prestige.
 - The incident almost certainly confirms Khomeini's weakening grasp. Doubtful a strong Khomeini would have let matters get so out of hand, or permit public humiliation of his protege. We doubt Khomeini wrote or fully understood import of letter to Intelligence chief, carried in media, directing investigation to continue.

*radical
Hashemi
arrested*

In our judgment, undermining Montazeri is a gain for radicals, a setback for moderates.

*gain for
radicals*

- Montazeri over the past three years has supported more moderate domestic and foreign policies. Particularly forceful on need to rein in excesses of revolutionary organizations such as Revolutionary Guards. Has encouraged debate on major economic and other issues. We have no recent evidence of his involvement in use of violence or terrorism to export revolution.
- Hashemi not significant in export of revolution. His operation relatively minor. Closing it down has almost no effect on Iranian activities.
- Montazeri probably has lost whatever slim chance he had to use his prestige as Khomeini's handpicked successor to "bless" more moderate policies. With Montazeri weakened, the leadership struggle is likely to be even more unstable, a development that works to the advantage of radicals, who probably control more guns and are more willing to use them to gain political dominance.

Difficult to believe actions against Montazeri's associates could have taken place without Rafsanjani's concurrence. We have no evidence of that, nor a persuasive explanation of what Rafsanjani would have hoped to gain.

*Rafsanjani
role?*

- If he did concur, he might have sought to eliminate a nest of radical influence on Montazeri, assuming Montazeri would recoup his prestige; Rafsanjani has reassured Montazeri of his support.
- Montazeri may have turned against the war, or at least against a major offensive, and Rafsanjani may have clipped Montazeri's wings to help keep open his options.
- Rafsanjani may be maneuvering to revoke Montazeri's designation as successor and have him replaced by another Ayatollah, or by a council, as the constitution permits. Both would be high-risk machinations.

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- Intelligence Minister Reyshahri, who is in charge of the Hashemi investigation, may be making a bid to gain more influence at the expense of both Rafsanjani and Montazeri. He would have to have had the support of other powerful leaders. If true, it would signify more serious political fragmentation than ever. Reyshahri
Bid?
- Reyshahri is son-in-law of Ayatollah Meshkini, influential head of Council of Experts which has institutional authority to pick Khomeini's successor. Last year the Council selected Montazeri, but Meshkini covets the post.

What are strengths and vulnerabilities of key players:

Rafsanjani

- Strengths: Skillful politician, adept at coalition-building among disparate groups. Support in Revolutionary Guard, regular armed forces, Majles. Protege of Khomeini and has access. Solid record of accomplishment.
- Weaknesses: Reputation as opportunist. Low level cleric. Political star tied to increasingly incapacitated Khomeini, politically weakened Montazeri, and Iran's military fortunes. No firm independent power base.

Montazeri

- Strengths: Khomeini's handpicked and officially designated successor. Support among moderates and radicals in Revolutionary Guard, Komitehs, mosques.
- Weaknesses: Less skillful politician, religious credentials weak, little charisma. Prestige seriously undermined by recent arrest of associates, failure of personal plea to Khomeini to rescind arrests. No firm power base.

Khamenei

- Strengths: Reelected President last year as Khomeini's obvious choice. Support among Revolutionary Guards, bazaar, Majles.
- Weaknesses: Eclipsed recently by Rafsanjani. Perceived as somewhat ineffectual.

Musavi

- Strengths: Reelected Prime Minister last year with Khomeini's approval. Strong support among radicals, especially in Cabinet.
- Weaknesses: Lacks support among moderates, conservatives. Reputation as poor administrator, blamed for government's weak domestic performance.

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2. US Leverage on Key Players

- The US has almost no leverage on key players. Whatever their position in the Iranian spectrum, they still view the US as an enemy and a threat to the survival of the revolution.
- Some pragmatists--Rafsanjani being the prime example--probably recognize Iran could gain some benefits by a public rapprochement with Washington, but they lack the authority or political support to initiate such a public move or even to offer it as a serious alternative for debate.

almost
no US
leverage

3. Implications of Leadership Struggle on the War

- The main reason for delaying the long-planned offensive seems to be doubts about military readiness. Differences among leaders on the war, however, have added to the caution by raising the political risks for pro-offensive advocates.
- Those who want an offensive still seem on top. Their major advantage being Khomeini's approval, reiterated just yesterday.
- If the offensive is not launched over the next few months, growing popular war-weariness fueled by economic problems will weigh more heavily in the regime's calculations and will be increasingly likely to force an indefinite postponement.
- The war is likely to figure prominently in the leadership struggle, but the debate probably will be over the management of the conflict, not over whether to end it.
- The pragmatists, if they gain predominance, will give more weight to Iran's economic plight in determining what to do about the war, but even they are unlikely to feel secure enough for some time to seek a formal peace. Khomeini's legacy will not be easily abandoned.

military >
polit.
doubts

Khomeini
statement

4. Implications for the Soviets

- We have no evidence that the Soviets have initiated any action as a direct result of the Iranian leadership struggle.
- We believe the USSR's ability to influence events in Iran is limited and its willingness to intervene militarily is constrained by the possibility of confrontation with the West. Moscow has a variety of levers it might use to exert pressure on Iran, but any effort at coercion risks being counterproductive and pushing Iran closer to the West.
- Moscow probably does not possess the assets to exert significant influence on Iranian domestic developments.
- Moscow believes its major objective in Iran is achieved as long as the US remains excluded from Iran. A significant improvement in relations is unlikely at least as long as Khomeini is alive. The best scenario

Sov.
limited
too

more
levers

already
won US
exclusion

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for the Soviets would be a stable and united Iran led by an anti-US leftist government willing to cooperate with the USSR.

- A radical government controlled by left-leaning technocrats or Revolutionary Guard leaders could, in fact, emerge; only likely after severe factional strife.

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6. Iranian Vulnerabilities

- Economy. Conditions worsening almost weekly. Continued Iraqi attacks on economic targets will further trend. Denial of foreign loans would further limit options (Tehran has sought only limited credit because regime has wanted to avoid being indebted to Western institutions). Total trade, commercial embargo by West would be devastating.

econ.
vulnerable

- Arms. Still lacks sophisticated weapons, armor, air defense equipment. Iraqis improving, at least in use of air force. If planned Iranian offensive launched, Tehran will be hard pressed to carry out another for some time, if embargo maintained and economic conditions remain critical.

arms

- Political infighting. Signs of disarray in regime likely to encourage opposition become more active, take more risks. Probably welcome US aid.

polit.
in fight
at least
Khomeini
death

7. Recent Developments in the War With Iraq

Relative calm has characterized the level of fighting during the past month. Both Tehran and Baghdad are probably assessing the results of their recent strategies. Preparations continue for the next round.

war
prep.

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Iran's military options are narrowing and differences within the regime over war strategy intensifying.

Iran

- Tehran probably still believes it needs a decisive victory before growing economic problems hinder its war-making ability. The current delay suggests Tehran is having logistics problems and is being careful to avoid a failure. We expect a ground offensive before the end of the winter rainy season.

logistics

- Small skirmishes and joint Kurdish-Iranian operations in northern Iraq continue in efforts to pressure Iraqi forces.

Kurds

- Iran's Navy continues to stop and search ships bound for Iraq, looking for war goods. Its last attack on Gulf Arab shipping was on 17 October.

Gulf shipping
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Iraq's successful bombing of Iranian economic targets has tapered off over the last four weeks.

- Iraq attacks seriously weakened Iran's economy. A continued lull will enable Tehran to make repairs and strengthen its air defenses, making future attacks more risky.
- Throughout the war Iraq has backed off after stepping up pressure. We expect attacks to resume.
- Press reports in the US that Iran has secured F-14 parts, however, may make Baghdad more cautious about risking its top pilots and French aircraft.
- Baghdad has strengthened its ground defenses since the disaster at Al Faw last February, and is confident it can withstand another offensive. Nonetheless, Iraq could suffer a serious battlefield defeat if Iran achieves surprise and if Iraq reacts slowly.

Iraq

less active

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